LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7806 | **NOTE PREPARED:** Jan 31, 2005
BILL NUMBER: SB 428 | **BILL AMENDED:**

SUBJECT: Health Insurance Matters.

FIRST AUTHOR: Sen. Miller | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill requires a state educational institution that provides health coverage to the state educational institution's employees to provide the coverage through the state employee health plans. It also allows a school corporation to provide health coverage to the school corporation's employees through the state employee health plans.

The bill specifies that coverage under the state employee health plans is available to certain individuals. It provides for the expiration of current provisions governing university employee health plans.

The bill also requires the Department of Insurance to establish and implement a program through which individuals and small employers may purchase group health coverage as a single group. It also requires the Commissioner of the Department of Insurance to review and approve health plan rate filings before the rates are used.

Effective Date: July 1, 2005.

Explanation of State Expenditures: The bill provides that the State Personnel Department (SPD) must allow a state educational institution or school corporation to provide coverage of health care services for the employees of the state educational institution under any state employee health plan available to state employees. A state educational institution that provides health coverage for employees of the state educational institution must provide the health coverage under a state employee health plan and may elect to provide continued coverage upon an employee's retirement or eligibility for Medicare coverage. A state educational institution employee who receives coverage of health care services under a state employee health plan must receive coverage equal to the coverage provided to state employees and be allowed to choose the state employee health plan. A state educational institution may elect to pay any part of the employees' premium.

Existing State Employee Health Plans. The state contracts for the provision of health services with three prepaid health care delivery plans or health maintenance organizations (HMOs). The three providers are M-Plan, Arnett, and Advantage. Each offers two plans. Anthem administers two state self-insurance plans (Anthem I and Anthem II).

Providing coverage to state educational institutions would affect premium costs, but the specific impact is indeterminable. Whether the impact will be positive or negative will depend on whether the demographics and claims experience of the university or school corporation population is found to be at more or less risk. Factors that would have an impact on the costs are outlined below.

Administrative Costs: With respect to the state's self-insurance plans, administrative costs typically make up 15%-20% of the overall benefit costs. Administrative costs are scaled based on the size of the group. There are economies of scale that apply when a large group has the same administration. The larger the group, the lower the per member per month charge. Having a large group with the same administration creates cost effectiveness to the administrator. To the extent that the administration can be standardized and efficient in the system, the cost can be reduced.

Eligibility Definition: Who is covered by the plan also affects the overall costs. Some universities cover retirees. This coverage impacts the overall costs since retirees are higher consumers of health care resources.

Networks: The network used can also impact costs. For example, using a Preferred Provider Organization (PPO) can impact costs. (PPOs are a group of doctors who sign a contract agreeing to a certain level of payment for certain services.) The impact would depend on networks currently in use by the universities or school corporations and how these networks compare to state plans.

Benefits: The level that employees share in the cost of claims through deductibles, copays, and coinsurance affects the overall cost per member paid by the plan. Additionally, how current university or school corporation coverages compare with existing state plans is unknown at this time.

Separate Versus Combined Risk Pool: With respect to the state self-insurance plan administered by Anthem, the major health care cost difference between a separate versus combined risk pool would be administrative. All other savings (mandatory participation, common benefits and eligibility, administrative practices, etc.) could be duplicated whether the risk pools were separate or combined. If all school corporations and universities were required to participate with the state employee group in a single risk pool with like administration, there could be some cost savings through lower administrative costs. If each university or school corporation is allowed to have unique administration, any economies of scale would be lost and there would not be any significant savings. Any type of voluntary offering creates adverse selection within the pool.

With respect to HMOs, based on the assumption that providing coverage to state educational institutions and school corporations would significantly increase the number of members enrolled in the plan and assuming that benefits, eligibility guidelines, enrollment processes, premium payments, and other operational functions are the same for all participants, administrative costs would be the same. If the state educational institutions are treated as a separate risk pool, it would have no effect on state employee coverage costs.

If the state educational institutions, school corporations, and the state employee group are treated as one risk pool, it is unclear whether the impact would be positive or negative. The impact would depend on the age, sex, health status, etc. of the educational institution employees and dependents who enroll for coverage relative to state employees and their dependents currently selecting health care coverage. However, the opportunity to realize positive versus negative results would be greater if all educational institutions were required to participate in this benefit pool and not given the opportunity to opt out and purchase health care benefits independently. If the proportion of new high-cost educational institutions electing to participate in a particular plan exceeds the proportion of new low-cost educational institutions electing to participate, then there would be a greater probability that the state employee health coverage costs would increase.

Eligibility for Coverage. This bill provides that eligibility for coverage under an employee health plan is not available to an individual other than an employee of the state educational institution and the spouse and dependent child of an employee of the state educational institution. The bill would eliminate domestic partner benefits for university employees. Currently, Indiana University, Purdue University, Indiana State University, and Ball State University provide such benefits. The impact of the proposal is not expected to be great relative to the universities' total health insurance costs. The bill also provides that each state educational institution must annually certify to the Commission for Higher Education that all employee health plans of the institution comply with this requirement. This provision should have a minimal impact.

Department of Insurance (DOI). The bill provides that the DOI must provide for a joint health coverage purchasing program. The DOI must, not later than July 1, 2006, establish and implement a program through which two or more individuals and small employers may jointly purchase as members of a single group through a group policy of accident and sickness insurance or a group contract. This provision applies to employers with fewer than 75 employees. The DOI must also review and approve group rates. The DOI will need to contract for additional actuarial services. It is estimated that additional services will cost no more than $50,000.

Early Intervention Services. The bill expires sections of the code pertaining to payment of early intervention services because the individuals will be covered under the state plan. These provisions would have no impact.

Implementation. The SPD, with the State Budget Agency (SBA), must implement the requirements not later than July 1, 2006. A state educational institution must comply with the requirements on the first date that the state educational institution begins to provide, amends, or renews a program of coverage for health care services for employees or retired employees after June 30, 2006.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOI, SPD, SBA, and state universities.

Local Agencies Affected: School corporations.

Information Sources: Amy Strati, Acting Commissioner, DOI, 232-2404; SPD; SBA.

Fiscal Analyst: Bernadette Bartlett, 317-232-9586.